

**PICKFORD UTILITY AUTHORITY**

**BASIC FINANCIAL STATEMENTS**

**June 30, 2004**

# AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <u>Prattford Utility Authority</u>	County <u>Chippewa/Mackinac</u>
Audit Date <u>June 30, 2004</u>	Opinion Date <u>August 13, 2004</u>	Date Accountant Report Submitted to State: <u>October 15, 2004</u>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements,
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☒ yes ☐ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). *Authority adopted policy in August 2004.*
- ☒ yes ☐ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). *Authority Adopted policy in August of 2004.*

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <u>Anderson Tackman &amp; Co. PLLC</u>			
Street Address <u>16978 S. Riley Ave.</u>		City <u>Hinckley</u>	State <u>MI</u>
Accountant Signature <u>Anderson Tackman &amp; Co. PLLC</u>		ZIP <u>49788</u>	

**PICKFORD UTILITY AUTHORITY**

**APPOINTED OFFICIALS**

AUTHORITY PRESIDENT

JAY LEACH

AUTHORITY VICE PRESIDENT

CARL REICH

AUTHORITY TREASURER

MARK SCHWAB

AUTHORITY SECRETARY

RAEONA ARMSTRONG

AUTHORITY TRUSTEE

MERLIN GALER

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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

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**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**INDEPENDENT AUDITORS' REPORT**

Pickford Utility Authority  
Pickford, Michigan 49774

We have audited the accompanying financial statements of the business-type activities, of the Pickford Utility Authority as of and for June 30, 2004, as listed in the Table of Contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pickford Utility Authority as of June 30, 2004, and the results of its operations for the period then ended in conformity with accounting principles generally accepted in the United States of America.

The Pickford Utility Authority implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments as of July 1, 2003. This results in a change in the format and content of the basic financial statements.

In accordance with Government Auditing Standards, we have also issued our report dated August 13, 2004, on our consideration of the Pickford Utility Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on page 3 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Anderson Tackman & Co PLC*

Anderson, Tackman & Company, PLC  
Certified Public Accountants

August 13, 2004

## **Management's Discussion and Analysis**

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### Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances.

### The Authority as a Whole

The Authority's combined net assets decreased 3.6% from a year ago decreasing from \$1,110,151 to \$1,070,483. The business-type activities experienced a \$39,668 decrease in net assets, primarily as a result of depreciation expense. In a condensed format, the table below shows the net assets as of the current date. Because the Authority is only required to have an audit conducted every other year, a two year comparison will not be available.

The Authority implemented GASB-34 accounting procedures for the period beginning July 1, 2003.

In a condensed format, the table below shows the net assets of Pickford Utility Authority.

	Business-Type Activities 2004
Current Assets	\$ 10,038
Noncurrent Assets	<u>1,222,198</u>
Total Assets	<u>1,232,236</u>
Long-Term Debt Outstanding	140,000
Other Liabilities	<u>21,753</u>
Total Liabilities	<u>161,753</u>
Net Assets	
Invested in Capital Assets - Net of Debt	1,062,198
Unrestricted (Deficit)	<u>8,285</u>
Total Net Assets	<u>\$ 1,070,483</u>



# Pickford Utility Authority

## Management's Discussion and Analysis June 30, 2004

The current level of unrestricted net assets for our business-type activities stands at \$8,285, or about 8% of expenses. This is within the targeted range set by the Authority's Board of Directors during its last budget process.

The following table shows the activities of the Authority.

	<u>Business-Type Activities 2004</u>
Revenues	
Charges for Services	\$ 31,123
Interest and Other	<u>33,992</u>
Total Revenues	<u>65,115</u>
Expenses	
Operations	29,186
Interest Expense	9,000
Depreciation Expense	<u>66,597</u>
Total Expenses	<u>104,783</u>
Change in Net Assets	<u>\$ (39,668)</u>

### **Business-Type Activities**

The Authority's total business-type revenues decreased by approximately \$8,789, primarily due to the decrease in permit and hookup fees. The second largest decrease, compared to the prior year, was user fees of \$2,559.

Expenses decreased by only about \$8,260 during the year. This was primarily the result of close budget monitoring throughout the year.

### **Capital Asset and Debt Administration**

At the end of 2004, the Authority had \$1,222,198 invested in a broad range of capital assets, including storage buildings, machinery and equipment, and sewer lines.

The Authority reduced its bond debt load by \$20,000 in principal payments in fiscal year 2004 ending with a debt balance of \$160,000.

### **Economic Factors and Next Year's Budgets and Rates**

A direct reflection of a soft economy, the Authority's 2005 budget will be tight essentially a "hold the line" document when compared to the 2004 program.

Insurance costs continue to increase.

### **Contacting the Authority's Management**

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Authority at (906) 647-3361.

## **Basic Financial Statements**

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# Pickford Utility Authority

Statement of Net Assets  
June 30, 2004

## ASSETS

### Current Assets

Cash and Equivalents	\$ 10,038
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### Capital Assets

Property and Equipment, (Net of Accumulated Depreciation)	1,222,198
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TOTAL ASSETS	\$ 1,232,236
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## LIABILITIES AND NET ASSETS

### Current Liabilities

Current Portion of Bonds Payable	\$ 20,000
Accrued Payroll and Related Liabilities	1,753

TOTAL CURRENT LIABILITIES	21,753
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### Long-Term Liabilities

Bonds Payable – Long-Term Portion	140,000
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TOTAL LIABILITIES	161,753
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### Net Assets

Investment in Capital Assets (Net of Debt)	1,062,198
Unrestricted	8,285

TOTAL NET ASSETS	1,070,483
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TOTAL LIABILITIES AND NET ASSETS	\$ 1,232,236
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The accompanying notes are an integral part of these financial statements.

# Pickford Utility Authority

## Statement of Revenues, Expenses and Changes in Net Assets Year Ended June 30, 2004

### OPERATING REVENUE:

Charges for Services – Users	\$ 31,123
Permits and Hook-Up Fees	820
Miscellaneous	<u>4,120</u>

TOTAL OPERATING REVENUES	<u>36,063</u>
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### OPERATING EXPENSES:

Wages	14,500
Payroll Taxes	1,470
Supplies	339
Professional Services	680
Board Fees	705
Vehicle Expense	96
Insurance	7,878
Repairs and Maintenance	284
Utilities	2,247
Miscellaneous	<u>987</u>

TOTAL OPERATING EXPENSES BEFORE DEPRECIATION	<u>29,186</u>
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Operating Income (Loss) Before Depreciation	6,877
Less Depreciation	<u>(66,597)</u>

TOTAL OPERATING INCOME (LOSS)	<u>(59,720)</u>
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### NON-OPERATING INCOME (EXPENSE):

Interest Earnings	102
Local Contributions	28,950
Interest Expense – Long-Term Debt	<u>(9,000)</u>

Net Non-Operating Income (Expense)	<u>20,052</u>
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Change in Net Assets	(39,668)
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NET ASSETS, JULY 1	<u>1,110,151</u>
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NET ASSETS, JUNE 30	<u>\$ 1,070,483</u>
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The accompanying notes are an integral part of these financial statements.

# Pickford Utility Authority

## Statement of Cash Flows For the Year End June 30, 2004

### CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 36,063
Payments to Employees	(15,927)
Payments to Suppliers	(13,216)
Net Cash Provided (Used) by Operating Activities	<u>6,920</u>

### CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES

Local Contributions	<u>28,950</u>
Net Cash Provided (Used) by Noncapital and Related Financing Activities	<u>28,950</u>

### CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Acquisition and Construction of Capital Assets (net)	(4,120)
Interest Paid on Bonds	(9,000)
Principal paid on Bonds	(20,000)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(33,120)</u>

### CASH FLOWS FROM INVESTING ACTIVITIES

Interest on Investments	<u>102</u>
Net Cash Provided (Used) by Investing Activities	<u>102</u>
Net Cash Provided (Used) - All Activities	2,852
Cash and Cash Equivalents at Beginning of the Year	<u>7,186</u>
Cash and Cash Equivalents at End of the Year	<u>\$ 10,038</u>

### RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Operating Income (loss)	\$ (59,720)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	66,597
Change in Assets and Liabilities	
Accrued Liabilities	<u>43</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 6,920</u>

The accompanying notes are an integral part of these financial statements.

## **Notes to the Financial Statements**

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## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Pickford Utility Authority, conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The following is a summary of the significant accounting policies used by the Authority:

### A – Reporting Entity:

#### Financial Reporting Entity

The financial statements of the Authority include the following operation: Pickford Area Wastewater Treatment Facility. The operation listed above is included because the Authority has direct oversight responsibility over each operation.

The Authority is a separate public municipal authority incorporated by Pickford Township, Chippewa County, and Marquette Township, Mackinac County pursuant to the Joint Sewage and Water Authority Act, Act 233, Public Acts of Michigan, 1955, as amended, for the purpose of acquiring, owning, improving, enlarging, extending, operating, and financing a sewage disposal system or a water supply system or both on behalf of its incorporating municipalities and to provide water or sewage disposal services to area municipalities. The Pickford Utility Authority is governed by a five member board, which is comprised of four Commissioners from Pickford Township and one Commissioner from Marquette Township. The Commissioners are appointed by the Supervisor of Pickford Township with the advice and consent of the governing body of said Township.

### B – Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of revenues, expenses and changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.



**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

**C – Measurement Focus, Basis of Accounting and Financial Statement Presentation:**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

All other revenue items are considered to be available only when cash is received by the government.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary fund relate to charges to customers for sewage disposal. Operating expenses for proprietary funds include the cost of sales and services, and administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

**D - Assets, Liabilities, and Net Assets or Equity:**

Bank Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Deposits are recorded at cost.

Inventories and Prepaid Items – All inventories, including the cost of supplies, are expensed when purchased. Expenditures for insurance and similar services are expensed when paid.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

Capital Assets – Capital assets, which include property, plant, and equipment, infrastructure assets (e.g., sewer lines and similar items) are reported in financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation – Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Sewer System	40 years
Machinery & Equipment	5-10 years
Storage Buildings	15 years

Long-Term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in business-type activities.

Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

**NOTE 2 - CASH AND EQUIVALENTS:**Statutory Authority:

Michigan law (Act 196 PA 1997) authorizes the Authority to deposit and invest in one or more of the following:

- a. Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.

## NOTE 2 - CASH AND EQUIVALENTS: (Continued)

- d. Repurchase agreements consisting of instruments listed in a.
- e. Bankers acceptance of United States banks.
- f. Obligations of this State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligation described in a. through g. if purchased through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

The Authority's deposits are in accordance with statutory authority. The Authority's deposits are located in several local financial institutions. All deposits are carried at cost.

### Balance Sheet Account

Cash and equivalents	\$ 10,038
	<u>          </u>
	<u>\$ 10,038</u>

### Cash Items

Checking	\$ 6,319
Savings	<u>3,719</u>
	<u>\$ 10,038</u>

The deposit risk disclosures as required by Governmental Accounting Standards Board (GASB) Statement No. 3 are summarized as follows:

	<u>Insured</u>	<u>Uninsured</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Checking and Savings	<u>\$ 10,793</u>	<u>\$ -</u>	<u>\$ 10,793</u>	<u>\$ 10,038</u>

The Authority's deposits are 100% covered by FDIC insurance.

# Pickford Utility Authority

Notes to Financial Statements  
June 30, 2004

## NOTE 3 - CAPITAL ASSETS:

Capital Asset activity for the Authority for the current year was as follows:

	Balance 07/01/03	Increases	Decreases	Balance 06/30/04
<b>Business-Type Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 21,000	\$ -	\$ -	\$ 21,000
Subtotal	21,000	-	-	21,000
Capital assets being depreciated:				
Building	52,823	-	-	52,823
Sewer System	2,578,108	4,120	-	2,582,228
Equipment	89,237	-	-	89,237
Subtotal	2,720,168	4,120	-	2,724,288
<b>Business-Type Activities:</b>				
Less accumulated depreciation for:				
Building	32,209	1,644	-	33,853
Sewer System	1,336,429	64,521	-	1,400,950
Equipment	87,855	432	-	88,287
Subtotal	1,456,493	66,597	-	1,523,090
Net Capital Assets being Depreciated	1,263,675	(62,477)	-	1,201,198
Business Capital Total				
Capital Assets – Net of Depreciation	\$ 1,284,675	\$ (62,477)	\$ -	\$ 1,222,198

## NOTE 4 - LONG-TERM DEBT:

The Authority has issued general obligation bonds for the construction of the Pickford Area Wastewater Treatment Facility. The Pickford Utility Authority 1982 Sewage Disposal System Bonds were issued in September 1982. The total issue was for \$516,000 at a rate of five percent per annum payable semi-annually. Bonds maturing in the years 1984 to 2012, inclusive, will be subject to redemption prior to maturity, in reverse numerical order, at the option of the Authority on any one or more interest payment dates on or after September 1, 1992, at the par value thereof and accrued interest to the date fixed for redemption without premium or penalty.

# Pickford Utility Authority

Notes to Financial Statements  
June 30, 2004

## NOTE 4 - LONG-TERM DEBT: (Continued)

The following is a summary of the long-term debt transactions of the Authority for the year ended June 30, 2004.

Balance at July 1, 2003	\$ 180,000
Long-term debt retired	<u>(20,000)</u>
Balance at June 30, 2004	160,000
Less: Current Portion	<u>(20,000)</u>
Long-Term Portion	<u>\$ 140,000</u>

Maturities of principal and interest over the remaining life of the bonds payable are summarized as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 20,000	\$ 8,000	\$ 28,000
2006	20,000	7,000	27,000
2007	20,000	6,000	26,000
2008	20,000	5,000	25,000
2009	20,000	4,000	24,000
2010-2012	<u>60,000</u>	<u>3,000</u>	<u>63,000</u>
Total	<u>\$ 160,000</u>	<u>\$ 33,000</u>	<u>\$ 193,000</u>

## NOTE 5 - RISK MANAGEMENT:

The Authority is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Authority has purchased commercial insurance for property loss, torts, and worker's compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of coverage in any of the past three fiscal years.

## NOTE 6 - CHANGE IN ACCOUNTING PRINCIPLE:

Effective July 1, 2003, the Authority implemented several new accounting standards issued by GASB:

Statement No. 33, Accounting and Financial Reporting for Non-Exchange Transactions, as amended by Statement No. 36, Recipient Reporting for Certain Shared Non-Exchange Revenues, which establishes standards for recording non-exchange transactions on the modified accrual and accrual basis of accounting.

**NOTE 6 - CHANGE IN ACCOUNTING PRINCIPLE: (Continued)**

Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, as amended by Statement No. 37, Basic Financial Statements – Management’s Discussion and Analysis – for State and Local Governments Omnibus, which established new financial reporting standards for state and local governments. This statement requires significant change in the financial reporting model used by local governments, eliminating account groups and utilizing full accrual basis of accounting and the economic resources measurement focus. Another significant change is the Management Discussion and Analysis Section, which provides an overall analysis of the financial position and results of operations and conditions that could have significant effect on the financial position or results of operations.

Statement No. 38, Certain Financial Statement Note Disclosures, which requires certain note disclosures when implementing GASB Statement 34.

## **Reports on Compliance**

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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

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**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL**  
**REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED**  
**IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Pickford Utility Authority  
Pickford, Michigan 49617

We have audited the basic financial statements of the Pickford Utility Authority, as of and for June 30, 2004, and have issued our report thereon, dated August 13, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Pickford Utility Authority's basic financial statements are free of material misstatement, we performed a test of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. We did note certain immaterial instances of noncompliance, which we have reported to management of the Pickford Utility Authority in a separate letter dated August 13, 2004.



Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Pickford Utility Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the Pickford Utility Authority in a separate letter dated August 13, 2004.

This report is intended solely for the information and use of the Board of Commissioners, management, federal awarding agencies, pass-through entities and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

*Anderson Tackman & Co PLC*

**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

August 13, 2004



**ANDERSON, TACKMAN & COMPANY, PLC**  
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SUE A. BOWLBY, CPA, PRINCIPAL  
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DEANNA J. MAYER, CPA

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**REPORT TO MANAGEMENT**

Board of Directors  
Pickford Utility Authority

We have audited the financial statements of the Pickford Utility Authority for the year ended June 30, 2004, and have issued our report thereon dated August 13, 2004. Professional standards require that we provide; you with the following information related to our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards**

As stated in our engagement letter dated August 13, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Pickford Utility Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Pickford Utility Authority's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our test was not to provide and opinion on compliance with such provisions.

### **Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of the accounting policies and their application. The significant accounting policies used by the Pickford Utility Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the Pickford Utility Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is lack of authoritative guidance or consensus. The Authority did implement GASB Statement No. 34 "Basic Financial Statements – Management Discussion and Analysis" – for State and Local Government as of July 1, 2003.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Pickford Utility Authority's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Pickford Utility Authority, either individually or in the aggregate indicate matters that could have a significant effect on the Pickford Utility Authority's financial reporting process.

### **Disagreement with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultation with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Pickford Utility Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Pickford Utility Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in the performance of our audit.

### **Comments and Recommendations**

#### **Segregation of Duties – Repeat Comment**

Within the present plan of organization of the Authority, there is an inadequate control over cash transactions caused by an inadequate segregation of duties, which is due to the limited number of office personnel employed. We recommend a review of current cash controls and implementation of procedures would increase the separation of these functions to a reasonable extent or implement review procedures to assure proper recording and authorization of funds.

#### **Investment Policy – Repeat Comment**

As a unit of local government, the Authority is required under Public Act 20 of 1943, as amended MCL 129.91, to adopt an investment policy detailing approved depositories and investments. We recommend the Authority create and adopt an investment policy immediately to comply with State laws and regulations.

Client Response – The Authority adopted an investment policy at the August 2004 meeting.

Credit Card Policy – Repeat Comment

The Authority attained a credit card during the fiscal year; however, the Board did not adopt a policy outlining proper usage. We recommend the Authority write and adopt a policy authorizing who is authorized to use the card, the types of purchases allowed with the card, and who is responsible for reconciling the credit card statement purchases to the general ledger.

Client Response – The Authority adopted a credit card policy at the August 2004 meeting.

Purchasing Policies – Repeat Comment

The Authority does not currently have a purchasing policy. The Authority needs to adopt a policy to ensure internal control relating to purchasing.

Client Response – The Authority adopted a purchasing policy at the August 2004 meeting.

Fixed Assets

After reviewing the current procedures for fixed assets acquisition, we noted that the current procedure placed fixed assets within the account “Repairs and Maintenance”. We recommend that the Authority classify all new purchases in the fixed asset category in which they belong and depreciate them appropriately.

Conclusion

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of assistance, please contact us.

This report is intended solely for the information and use of management and the Board of Directors of Pickford Utility Authority, and is not intended to be and should not be used by anyone other than these specified parties.

*Anderson Tackman & Co PLC*

**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

August 13, 2004